

Message Text

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C O N F I D E N T I A L PEKING 1495

E.O.11652: N/A

TAGS: ETRD, CH

SUBJECT: KELLOGG CONTRACTS

REF: PEKING 1075

1. ROBERT E. CATLETT, OF KELLOGG'S ENGINEERING STAFF CALLED AT USLO AUGUST 9 PRIOR TO A VISIT TO ALL THREE KELLOGG SITES WITH A TEAM HEADED BY W. H. HILL, KELLOGG'S PROJECT MANAGER FOR THE CHINESE PLANTS, AND INCLUDING A METALLURGIST AND A WELDING ENGINEER. THE FOLLOWING INFORMATION IS COMMERCIALY SENSITIVE, PARTICULARLY SINCE WE UNDERSTAND THAT JAPANESE COMPETITION IS INTERESTED IN NEW AMMONIA PLANTS FOR PRC. PLEASE PROTECT CATLETT.

2. THE SITE FOR FOURTH AMMONIA PLANT HAS BEEN CHOSEN (CATLETT COULD NOT REMEMBER WHERE), BUT SITE FOR TWO OF REMAINING PLANTS UNDER CURRENT CONTRACT HAVE APPARENTLY BEEN THE SUBJECT OF SOME DISPUTE AMONG THE CHINESE, SINCE PROPOSED SITES HAVE BEEN CHANGED MORE THAN ONCE, IN ONE CASE FROM THE SOUTH TO THE FAR NORTH. SITES FOR THE LAST TWO OF THE ORIGINAL EIGHT PLANTS HAVE NOT YET BEEN SELECTED.

3. THERE ARE PROBLEMS AT THE SITES SERIOUS ENOUGH TO REQUIRE THE FOUR TECHNICIANS MENTIONED REFTTEL AND HILL AND HIS TEAM OF ENGINEERS. ACCORDING TO CATLETT, ONE PROBLEM HAS BEEN THAT PRC TECHNICIANS HAVE DISMANT-
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LED KELLOGG EQUIPMENT (APPARENTLY TO LEARN HOW IT WORKED),

BEEN UNABLE TO REASSEMBLE IT, AND THEN CLAIMED THE MATERIAL WAS DEFECTIVE. THEY HAVE ALSO "REPAIRED" UNFAMILIAR EQUIPMENT THAT WAS IN WORKING ORDER AND DAMAGED IT. THERE HAS APPARENTLY BEEN MUCH SHIPPING DAMAGE, PARTICULARLY FOR THE NACHI SITE, WHERE EQUIPMENT HAS BEEN SHIPPED UP THE YANGTZE BY BOAT.

4. KELLOGG HAS BEEN DISCUSSIONS WITH TECHIMPORT FOR EIGHT ADDITIONAL PLANTS, WHICH HILL WILL CONTINUE ON HIS RETURN FROM INSPECTING SITES. THE PRC INTENDS TO PROGRESSIVELY REDUCE THE NUMBER OF KELLOGG TECHNICIANS, USED IN CONSTRUCTION UNTIL THE LAST OF THE NEW PLANTS WILL BE BUILT ENTIRELY BY THE CHINESE. CATLETT SAYS THAT BY DOUBLING UP, KELLOGG CAN REDUCE THE NUMBER OF TECHNICIANS FROM THE 35 NORMALLY USED, BUT THAT THE NUMBER CANNOT BE REDUCED VERY MUCH. CATLETT BELIEVED THAT THE NEW CONTRACTS ARE LIKELY TO ELIMINATE THE 5 PER CENT START-UP PORTION OF THE CONTRACT SINCE KELLOGG CANNOT GUARANTEE START-UP UNLESS ITS TECHNICIANS SUPERVISE THE ENTIRE JOB.

5. COMMENT: KELLOGG'S PROBLEMS HAVE BEEN COMMON COMPLAINTS BY THOSE WHO HAVE FURNISHED COMPLETE PLANTS TO THE PRC. WE PARTICULARLY WANT TO DETERMINE IF THE PROBLEMS KELLOGG IS HAVING ARE SERIOUS ENOUGH TO INTERFERE WITH NEGOTIATION OF A CONTRACT FOR THE NEW PLANTS, AND HAVE ASKED THE GROUP TO CHECK IN WITH US ON THEIR RETURN FROM THE INSPECTION TRIP.
BUSH

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